

August 23, 2002

Mr. Randall S. Fiertz  
Acting Director of Revenue  
U.S. Department of Transportation  
Transportation Security Administration  
400 Seventh Street, S.W.  
Washington, D.C. 20590

Dear Mr. Fiertz:

On behalf of the AICPA Airlines Security Fee Ad Hoc Task Force, thank you for your letter of August 7, 2002 describing the views of the Transportation Security Administration (TSA) on the scope of the independent audit under section 118 of the Aviation and Transportation Security Act (the "Act"), 49 U.S.C. § 44940, and reporting issues thereunder. We found the July 31, 2002 meeting with TSA representatives to be very helpful in more fully understanding the objectives that the TSA seeks to accomplish through the independent audit. We are committed to providing appropriate services under professional standards to assist the TSA in meeting those objectives.

We understand that the TSA desires independent assurance that security expenses reported by air carriers on the Appendix A schedule are complete, accurate and reasonable, in accordance with the reporting requirements of Part 1511. We recognize the particular importance to the TSA of ensuring that such costs reported are complete because the reported amounts are used as a basis for determining the amount of aviation security infrastructure fees that should be remitted by air carriers to the TSA under the Act. TSA representatives advised us at the meeting that the TSA's initial review of the Appendix A filings found the aggregate costs reported by the collective air carriers to be significantly less than TSA's own budget estimates.

At the meeting we explained to TSA representatives the auditor's considerations in planning and performing the audit, including the auditor's assessment of the reasonableness of the measurement criteria on which the auditor must evaluate and express an independent professional opinion; the air carrier's accounting system and controls in place during calendar year 2000 related to accounting for security costs; the extent, methodology and assumptions used by carriers to estimate actual security costs for such year; and whether contemporaneous documentation from 2000 exists to provide the auditor with sufficient objective evidence to support an opinion.

We also explained that the auditor might conclude that he or she is not able to express an opinion because the auditor concludes there is not reasonable measurement criteria against which the auditor can base his or her professional opinion and, therefore, might issue a report disclaiming an opinion. The Interim Final Rule (Regulation), which was issued in February 2002, requires air carriers to report costs incurred relating to passenger and property screening activities during calendar year 2000. The Regulation requires the carrier to include all costs incurred in calendar year 2000 for the screening of passengers and property (including allocations of indirect costs),

and provides detailed examples of cost types for illustrative purposes<sup>1</sup>. The Regulation specifically states that the examples of cost types are not intended to set forth all relevant costs that must be reported, and that carriers must submit all of their relevant costs, regardless of whether these cost have been specifically illustrated. Additionally, because the Regulation was not in existence during 2000, the air carrier's accounting systems may not have been designed to capture the information now required to be reported in Appendix A, including underlying information required for allocations of indirect costs illustrated in the Regulation. Accordingly, the historical accounting records likely will not provide the information necessary to validate the accuracy or the reasonableness of underlying data or the allocation basis for indirect costs.

Another possible outcome of an audit of Appendix A is that the auditor might conclude to issue a report expressing a qualified opinion or disclaiming an opinion due to a restriction on the scope of the audit because the auditor is unable to perform sufficient auditing procedures or unable to gather sufficient evidence to be able to satisfy the audit objective. Such a determination could result when contemporaneous documentation supporting security costs for the 2000 calendar year does not exist.

In any of the above reporting situations, the auditor would perform as many of the audit procedures and gather as much evidence as possible in the circumstances before concluding on the type of report to issue. The auditor's report would explain the reasons for such disclaimer or qualification, and the auditor's documentation would include the basis for the auditor's conclusion, in addition to documenting the auditor's procedures performed and findings.

Your letter indicated that such qualified or disclaimer reports would satisfy the air carrier's audit submission requirements of Part 1511, subject to the carrier also submitting the auditor's working papers. As per our March 20, 2002 response to the Interim Final Rule, the TSA should not be requesting the physical submission of the independent auditor's working papers. The auditor's working papers are the property of the independent auditor. Further, some states have statutes or regulations that designate the practitioner as the owner of the working papers. The TSA appropriately acknowledged this in its *Guidance for the Aviation Security Fee: Completing and submitting Appendix A on costs related to passenger and property screening for calendar year 2000*, as published in the May 1, 2002 *Federal Register*. Item 15 of that guidance states that the submission of the auditor's working papers may be satisfied by including in the audit submission the availability (location and time) of the auditor's working papers, so long as the working papers are retained and provided to TSA upon request.

Your letter indicated an understanding that under AICPA reporting standards, the disclaimer or qualified reports would not provide TSA with the details and reasoning behind the qualified opinion or disclaimer report. At our July 31, 2002 meeting, we discussed the nature of an auditor's report that expresses a qualified opinion or disclaims an opinion and shared with TSA

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<sup>1</sup> The supporting notes to Appendix A of the Regulation include detailed guidance on how air carrier's should classify costs in each of the 35 cost category line items in Appendix A. In many cases the supporting notes present open-ended classification descriptions by including the phrase "and other costs " without an underlying cost definition. Further, supporting note 35 provides an equivocal description of additional costs that must be reported by carriers in Appendix A (i.e.- "Any costs incurred but not elsewhere specified during the calendar year 2000 for the screening of passengers and property.").

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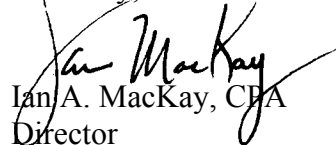
representatives some illustrative report examples. AICPA reporting standards do require the auditor's report to disclose all of the substantive reasons for such qualifications or disclaimer. The supporting details, including documentation of the auditor's procedures performed and findings, however, would be documented in the auditor's working papers.

We would like to reiterate our concern that many of the audit engagements are likely to result in disclaimers of opinion. We believe the filing of these types of reports is unlikely to serve TSA's needs in any meaningful or cost effective way. An agreed-upon procedures approach was suggested by the ad hoc task force because the task force believes that such an approach could be most cost-effective by concentrating on areas of the most concern to the TSA and reporting findings to the specific procedures that target those areas. An agreed-upon procedures engagement under AICPA *Professional Standards* is one in which the specified parties and the practitioner agree upon the procedures to be performed by the practitioner that the specified parties believe are appropriate. The specified parties assume responsibility for the sufficiency of the procedures since they best understand their own needs. The practitioner's report is in the form of procedures and findings. We wish to reiterate our offer to work with the TSA to develop procedures that could satisfy the TSA's objectives in a meaningful and cost effective way and we would be pleased to submit a list of suggested procedures for the TSA's consideration.

We are also concerned about the introduction in your August 7, 2002 letter of a new requirement for the air carriers to provide the TSA with "a report from its auditor identifying each circumstance in which the auditor determined that the completeness, accuracy, reasonableness, or veracity of any issue was questionable or unconfirmable, but *not material* to the Appendix A submission, the audit, the auditor's opinion, or any audit report" (emphasis added). Such requirement appears to be neither an interpretation nor a clarification of the Act, but rather appears to be a new requirement outside of the Act or Regulation. We believe any new reporting requirements should be established through appropriate rulemaking procedures. We are also concerned that auditors who either completed or began audits prior to your letter will not have the ability to comply with such a requirement for matters for which the auditor previously concluded were clearly immaterial. Accordingly, we believe that imposing additional requirements outside of the Act and Regulation would be inappropriate. Further, because of the reasons discussed above regarding why auditors may not be able to express an opinion, such as with respect to definitional issues and completeness testing, the auditor would not be able to quantify those items or circumstances.

Again, we appreciate the opportunity to discuss these important issues and offer to be of continuing assistance in support of the TSA's audit objectives.

Sincerely,



Ian A. MacKay, CPA  
Director

Professional Standards and Services- Washington

cc: AICPA Airlines Security Fee Ad Hoc Task Force